economic trends

September 2013

Migration drives dramatic population growth

Alberta gained more people from other provinces and countries in census year 2013 than in any other time in history. Migration of this magnitude has had a direct impact on Alberta's economy. It has driven economic activity higher, including housing and retail sales. It has also provided Alberta with a steady source of labour, which helped keep wage pressures contained.

Household Sector

Population surges past four million

Alberta's population surpassed the four million mark as of July 1,2013, jumping by 3.5% over the same time last year. This represents the strongest population growth seen in Alberta since 1982 and far outpaces the growth observed in all other provinces (Chart 1). Alberta welcomed a record 34,278 net migrants in the second quarter, capping off the Census year that saw a record 105,228 net new migrants to the province. Many of these people have been drawn from other provinces. Net interprovincial migration to Alberta has exceeded 10,000 in each of the last four quarters. For more information, see the latest *Quarterly Population Report*.

Key Indicators All indicators seasonally adjusted unless otherwise indicated

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	August	2,232	+3.6%
Unemployment Rate	August	4.8%	+0.4 p.p.
CPI Inflation	August	1.4%	+0.4 p.p.
Retail Sales	July	$6.1B	+6.4%
Housing Starts (annualized)	August	26,932	-7.9%
Rigs Drilling (unadjusted)	September	251	+9.6%
Manufacturing Shipments	July	$6.3B	+2.9%
Exports (unadjusted)	July	$9.1B	+13.7%

Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Labour market maintains balance

August was another strong month for job growth in Alberta, with 15,200 new positions created. This marked the fourth month out of the last five of robust job gains over 10,000. Entry into the labour force is more than keeping pace with job growth, as more people move to the province. Strong labour force growth has kept the unemployment rate above 4.3% since December, with August's rate coming in at 4.8%.

Inflation dips; earnings growth continues

Consumer price inflation pulled back to 1.4% in August on weaker energy prices, after three monthly readings above 2%. Average weekly earnings continue to far outpace inflation, rising by 3.5% over the first seven months of 2013.

Retail sales maintain steady annual gains

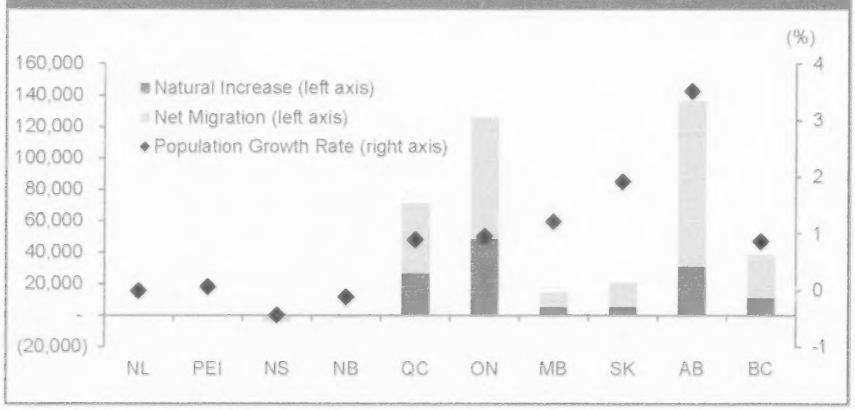
Retail activity remains strong, benefiting from a strong labour market and surging migration. Sales improved in July, after being negatively affected by disruptions from the flooding in southern Alberta in June. Year-over-year growth has remained above 5% since February.

Housing starts pause; resale market sizzles

After remaining above 31,000 (seasonally adjusted at annual rates, SAAR) in the first seven months of this year, spiking to 42,300 in May, housing starts dipped to 26,900 in August as multiple family housing starts in Edmonton dropped sharply.

Conversely, sales of existing homes in Alberta surged by 18.6% in August, hitting the third highest level on record behind the boom years of 2005-2006. Flooding in southern Alberta negatively impacted housing supply, which put upward pressure on prices in the Calgary area. Year-over-year price increases in Calgary hit 6.8% and 8.0% in July and August respectively.

Chart 1: Population Growth (census year ending July 1, 2013)



Source: Alberta Treasury Board and Finance

Alberta Business Sector

Permits build momentum, point to further construction gains.

The value of construction permits continues a strong upward trend. Year to date, non-residential permits are leading growth at 30.4% due to impressive gains in both commercial and institutional permits compared with a 17.0% increase in the residential sector. Flood reconstruction appears to be having an impact, as permits have surged in the Calgary region since the June flood.

Shipments and exports gaining steam

Refineries have resumed production after extended maintenance outages throughout much of the second quarter. Manufacturing shipments are now benefiting from both increased refinery output and higher prices. Chemical shipments have also benefited from higher prices, increasing sharply over the last few months.

Likewise, exports have improved with refineries back online and higher energy prices. Energy exports have been particularly strong over the last three months, making up ground after sluggish growth at the start of the year. Machinery product exports appear to have stabilized after a pullback in the latter part of 2012. For a more in-depth analysis of machinery exports, see *Economic Spotlight: Exporting Alberta's Machinery*.

More drills spinning

Total active rig counts have begun to move above last year's levels after falling steadily over the last year. In particular, August and September have shown a marked improvement in active rigs (see Chart 2).

Global Economy

Household credit growth slows

Canadian households are still adding to debt, but at a slower rate. Household credit was 4.9% higher than a year ago, the slowest year-over-year growth in over 10 years. The slowdown in debt growth over the last year has been mostly due to mortgages, which are now expanding at roughly the same rate as in the 1990s.

Federal Reserve surprises markets

The Federal Reserve ('Fed') surprised markets earlier this month when it chose to continue purchasing $85 billion worth of bonds each month. At the previous Federal Open Market Committee meeting in June, the Fed had indicated that it would start tapering bond purchases in September as long as economic data continued to suggest recovery. In its latest decision, the Fed noted that the economic recovery, particularly the labour market, has not been strong enough to justify tapering, especially given higher long-term interest rates and the effects of fiscal contraction. In the wake of the Fed decision, stock prices jumped, long-term bond yields fell and the US dollar depreciated, causing the exchange rate with the Canadian dollar to increase 0.7 cents US/C$.

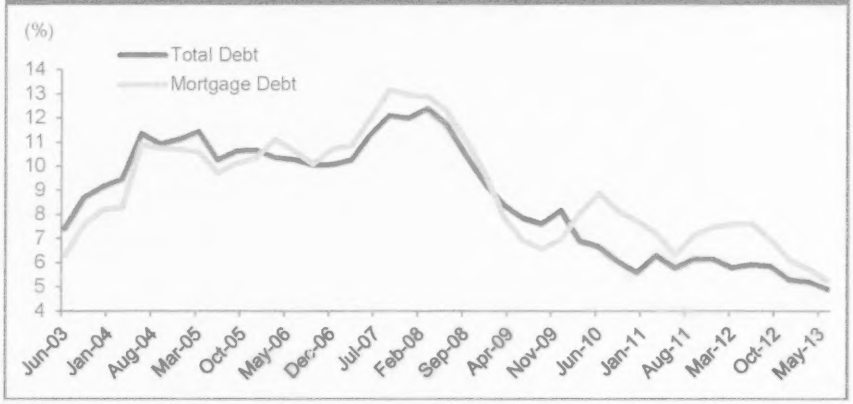
Debt ceiling revisited

The US Treasury will have borrowed up to the statutory debt limit in October. This, combined with a funding bill that needs to be passed by October 1, has set the stage for another round of political brinkmanship that could result in a government shutdown. Even if these outcomes are avoided, the fight over the debt ceiling could destabilize financial markets similar to the last debt ceiling debate of July 2011, which saw significant declines in both stock and commodity markets.

Chart 2: Rig Activity in Alberta

Source: CAODC, *Three month moving average

Chart 3: Household Credit Growth in Canada



Source: Statistics Canada

Unpacking Alberta's Income Premium

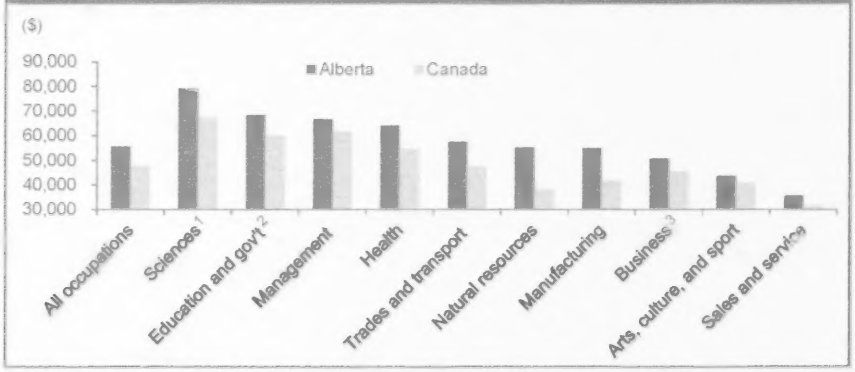
An income premium has long existed in Alberta. Average weekly earnings have been higher in Alberta than any other province since 2005, and as of July 2013 sit about 20% above the national average.

The overall income numbers can mask a lot variation within the population. Does Alberta's income premium against the national median disappear when removing specific regions, occupations, or people of certain education attainment from the analysis? This inFocus addresses this question using a rich dataset provided by the National Household Survey (NHS) that was released earlier this month. While there is variation in the income gap, Alberta's relatively high incomes are fairly broad-based, and prevail across the sub-groups.

Chart 1: Median Income by Province, 2010

Source: Statistics Canada NHS

Chart 2: Median Employment Income by Occupation , 2010 (full-year, full-time workers)



Source: Statistics Canada NHS

1 Natural and applied sciences and related occupations
2 Education, law and social, community and government services
3 Business, finance and administration occupations

Income premium exists across all major occupational groups

Alberta's income advantage is fairly widespread at the occupation level. Across occupations, someone is likely to earn more in Alberta than at the national level. Among all the major occupation classifications covered, median incomes are higher in Alberta than at the national level (Chart 2). The premium is largest for those in natural resource occupations and sciences, and smallest for people in arts, culture and sport occupations. These results indicate that a strong labour market has increased relative labour demand in Alberta and earnings across occupations.

All of Alberta's major centers above national median income

Alberta's income premium is not confined to certain cities. All cities, at the census agglomerate and census metropolitan area level, have a median income that exceeds the national median. The city region with the lowest median income, Wetaskiwin, has a median income that is still $427 higher than the national median. Despite the high floor on incomes in Alberta, there is a great deal of variation between cities. At the top end, Wood Buffalo is by far the highest earning region with a median income of $68,644. Table 1 shows Alberta's eighteen census

NHS Income Data

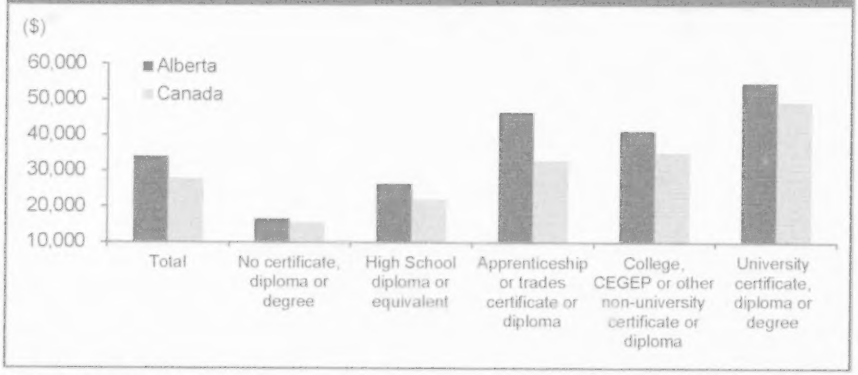
The NHS provides the most complete picture of incomes in Canada. The survey is based on a sample of 4.5 million Canadians in 2011. All Albertans earning income, regardless of source, are included in the calculation of averages or medians unless otherwise noted. Unlike the current statistics provided by Statistics Canada, the NHS provides a detailed split of incomes by occupation, education attainment, gender, and region. For drawing comparisons, this InFocus uses the median income to remove the impact of outlier observations.

Table 1: Median Income by Alberta City Region, 2010

National rank (out of 146)	City (CA or CMA)*	Median income ($)	% above national median income
1	Wood Buffalo	68,644	129.7
3	Cold Lake	49,661	66.2
6	Okotoks	41,648	39.4
7	Grande Prairie	41,040	37.4
9	Canmore	40,103	34.2
11	Lloydminster	39,633	32.6
14	Calgary CMA	38,184	27.8
15	Sylvan Lake	37,959	27.0
16	Edmonton CMA	37,243	24.7
18	Brooks	36,442	22.0
N/A	Alberta	36,306	21.5
19	High River	36,273	21.4
20	Red Deer	35,258	18.0
21	Strathmore	35,005	17.2
24	Lacombe	34,511	15.5
45	Camrose	31,537	5.6
48	Medicine Hat	31,350	4.9
50	Lethbridge	31,129	4.2
59	Wetaskiwin	30,305	1.4
N/A	Canada	29,878	0.0

Source: Statistics Canada NHS; *Census Agglomerate or Census Metropolitan Area. Sample includes all individuals reporting income.

Chart 3: Median Income by Education Attainment, 2010



Source: Statistics Canada NHS

agglomerates and census metropolitan area and ranks them in order of median income. The NHS, at present, does not have income information available outside of these city regions.

Largest income premium reported for people with trades certificate

A higher level of education attainment, not surprisingly, increases one's odds of earning a higher income. A positive link between education and income is observed across all provinces including Alberta, with those holding university degrees at the high end of the income scale. But what is particularly evident in Alberta is that relatively high incomes are earned regardless of overall education attainment or the type of education obtained. For those without post-secondary education, median incomes are 20% higher than the national median. The highest differential exists for holders of an apprenticeship of trades certificate or diploma, where the gap is 42%. Among university degree holders, the Alberta premium remains, but is comparatively smaller, at 11%.

Conclusion

Alberta's income premium is not confined to certain cities, occupations, or levels of education attainment. On the contrary, Alberta's strong labour market has resulted in higher incomes across the board according to the recently released NHS results. While incomes vary significantly between groups in Alberta, the NHS data suggest that there is a higher income floor in Alberta.

These findings are consistent with Alberta's relatively tight labour market. The province's unemployment rate has, on average, been 2.5 percentage points below the national average over the last 10 years. With supply of workers struggling to keep up with demand, Alberta has seen more generalized wage pressures and work opportunities than experienced at the national level, which has supported Alberta's income premium.

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